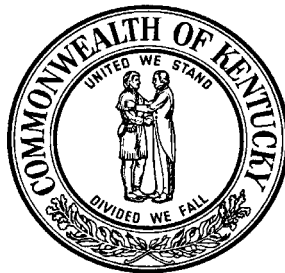


**REPORT OF THE AUDIT OF THE  
FAYETTE COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FAYETTE COUNTY**  
**SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 30, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Fayette County Sheriff as of April 30, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Lexington-Fayette Urban County Government (LFUCG), on behalf of the Sheriff, collected taxes of \$175,784,194 for the districts for 2004 taxes, commissions of \$3,256,633 were paid to the Sheriff's office for operations. LFUCG, on behalf of the Sheriff, distributed taxes of \$172,193,291 to the districts for 2004 Taxes. Taxes of \$153,051 are due to the districts from LFUCG and refunds of \$282 are due to LFUCG from the taxing districts.

**Report Comment:**

- Lexington-Fayette Urban County Government Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of Up To \$16,755,342 To Protect Deposits And Enter Into Written Agreements To Protect Deposits



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2004 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
COMMENT AND RECOMMENDATION .....	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	15





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Teresa Ann Isaac, Mayor

Honorable Kathy H. Witt, Fayette County Sheriff

Members of the Lexington-Fayette Urban County Government

Independent Auditor's Report

We have audited the Fayette County Sheriff's Settlement - 2004 Taxes as of April 30, 2005. This tax settlement is the responsibility of the Fayette County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Lexington-Fayette Urban County Government (LFUCG), on behalf of the Sheriff, prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid by LFUCG on behalf of the Sheriff as of April 30, 2005, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Teresa Ann Isaac, Mayor

Honorable Kathy H. Witt, Fayette County Sheriff

Members of the Lexington-Fayette Urban County Government

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2005 on our consideration of LFUCG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lexington-Fayette Urban County Government Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of Up To \$16,755,342 To Protect Deposits And Enter Into Written Agreements To Protect Deposits

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2005



FAYETTE COUNTY  
KATHY H. WITT, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

April 30, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 13,396,479	\$ 31,453,903	\$ 89,588,951	\$ 21,936,742
Tangible Personal Property	1,448,371	455,035	7,846,436	4,456,807
Intangible Personal Property				2,738,968
Increases Through Exonerations	7,453	15,079	48,065	22,923
Brokers' Accounts				28,385
Franchise Taxes	1,215,996	620,993	6,936,000	
Additional Billings	13,568	31,519	90,113	20,681
Limestone, Sand, and Mineral Reserves	671	1,283	4,488	1,099
Penalties	48,184	107,101	318,360	86,487
Adjusted to Sheriff's Receipt	(21,746)	(7,080)	(121,555)	(90,601)
Gross Chargeable to Sheriff	<u>\$ 16,108,976</u>	<u>\$ 32,677,833</u>	<u>\$ 104,710,858</u>	<u>\$ 29,201,491</u>
<u>Credits</u>				
Exonerations	\$ 74,013	\$ 51,353	\$ 422,990	\$ 167,123
Discounts	245,870	532,135	1,615,632	481,098
Delinquents:				
Real Estate	155,566	372,929	1,040,347	254,739
Tangible Personal Property	17,611	5,548	95,706	62,646
Intangible Personal Property				23,363
Additional Billings	1,007	2,556	6,721	1,675
Franchise Taxes	11,324	826	71,677	
Uncollected:				
Additional Billings	3,912	10,360	26,145	6,435
Franchise Taxes	168,579	45,726	939,352	
Total Credits	<u>\$ 677,882</u>	<u>\$ 1,021,433</u>	<u>\$ 4,218,570</u>	<u>\$ 997,079</u>
Taxes Collected	\$ 15,431,094	\$ 31,656,400	\$ 100,492,288	\$ 28,204,412
Less: Commissions *	<u>656,109</u>	<u>396,626</u>	<u>1,004,923</u>	<u>1,198,975</u>
Taxes Due	\$ 14,774,985	\$ 31,259,774	\$ 99,487,365	\$ 27,005,437
Taxes Paid	14,757,513	31,140,202	99,320,252	26,975,324
Refunds (Current and Prior Year)	<u>17,472</u>	<u>21,664</u>	<u>111,970</u>	<u>30,395</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 97,908</u>	<u>\$ 55,143</u>	<u>\$ (282)</u>

\* And \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

FAYETTE COUNTY  
KATHY H. WITT, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES  
April 30, 2005  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	49,428,470
1% on	\$	100,492,288
\$150,000 on	\$	25,853,436 (City Taxes)

\*\* Special Taxing Districts:

City - Full & Partial Services Districts	\$	97,772
Health District		43
Extension District		93
		<hr/>
Due Districts	\$	<u>97,908</u>

FAYETTE COUNTY  
NOTES TO FINANCIAL STATEMENT

April 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

Lexington-Fayette Urban County Government (LFUCG) maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between LFUCG and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. LFUCG entered into written agreements with the depository institutions and met requirements (a), (b), and (c) stated above. However, as of November 3, 2004 and November 12, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,659,437 and \$16,755,342 (respectively) of public funds uninsured and unsecured.

FAYETTE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2005  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2004 through April 30, 2005.

Note 4. Interest Income

LFUCG on behalf of the Fayette County Sheriff earned \$79,016 as interest income on 2004 taxes and remitted that amount to the Sheriff's office. This amount will be used to operate the Sheriff's office (See Note 8). School tax collections are generally wire transferred to the school board each business day resulting in no allocation of interest earned to the school district.

Note 5. Sheriff's 10% Add-On Fee

LFUCG on behalf of the Fayette County Sheriff collected \$459,098 of 10% add-on fees allowed by KRS 134.430(3) and remitted the fees to the Sheriff's office. This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

LFUCG on behalf of the Fayette County Sheriff collected \$12,609 of advertising costs and \$7,005 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). LFUCG retained the advertising costs as required by statute. Pursuant to the terms of the "Revenue Collection Agreement" (See Note 8) the advertising fees were paid to the Sheriff's office. The advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff has attempted to return overpayments to taxpayers. According to KRS 393.090, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer. As of April 30, 2005, LFUCG, on behalf of the Sheriff, had \$11,809 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff (or LFUCG on behalf of the Sheriff) should send a written report to the Treasury Department in accordance with KRS 393.110 and should turn over to the Kentucky State Treasurer any of those moneys that have been in his custody in excess of three years.

FAYETTE COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 30, 2005  
(Continued)

Note 8. Agreement With Lexington-Fayette Urban County Government

Effective July 1, 2004, (with the term of the agreement for one (1) year) the Sheriff of Fayette County entered into a "Revenue Collection Agreement" with the Lexington-Fayette Urban County Government (LFUCG). The parties agreed that LFUCG, Division of Revenue would collect all state, county, school and special district taxes in Fayette County excluding motor vehicle taxes. LFUCG agreed to pay the Sheriff:

- 1) The commission on state taxes established by KRS 134.290(1) along with the investment earnings on the state taxes;
- 2) A commission on Urban County Government General Services District *Ad Valorem* Taxes, other than motor vehicle taxes, which is paid at the rate of ten percent (10%) of the first Five Thousand Dollars collected and four and one-quarter percent (4.25%) upon the residue;
- 3) A commission on Urban County Government Full and Partial Urban Services Districts *Ad Valorem* Taxes in the fixed amount of One Hundred Fifty Thousand Dollars (\$150,000);
- 4) The delinquent tax collection fees paid by the County Clerk as provided for by KRS 134.440(2);
- 5) The fees for delinquent taxes as provided for in KRS 134.430(3); and
- 6) Payments provided for within KRS 134.290(3), if paid by the State to the Government.

The agreement states the following with regard to the collection of school taxes and the commission thereon:

"Gross tax receipts, including the commission due the Sheriff for collection of such taxes, shall be remitted daily to the Fayette County School Board, provided, however, that the amount of the commission shall be specifically identified, and, any contrary provisions of KRS 160.500(1) notwithstanding, the commission due the Sheriff shall be computed at one percent (1%) of all school taxes collected."

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COMMENT AND RECOMMENDATION





FAYETTE COUNTY  
KATHY H. WITT, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 30, 2005

STATE LAWS AND REGULATIONS:

Lexington-Fayette Urban County Government (LFUCG) Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of Up To \$16,755,342 And Enter Into Written Agreements To Protect Deposits

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On November 3, 2004, \$1,659,437, and November 12, 2004, \$16,755,342 of LFUCG's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), depository institutions should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend LFUCG require depository institutions to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend LFUCG enter into a written agreement with all depository institutions to secure LFUCG's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Management's Response:*

*Collateral agreements were in place with both banks in which deposits were uninsured and unsecured. Written agreements were in place. Collateralization was fully made within twenty-four hours.*

PRIOR YEAR:

There were no comments or recommendations in the prior year audit.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Teresa Ann Isaac, Mayor  
Honorable Kathy H. Witt, Fayette County Sheriff  
Members of the Lexington-Fayette Urban County Government

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Fayette County Sheriff's Settlement - 2004 Taxes as of April 30, 2005, and have issued our report thereon dated November 2, 2005. The Fayette County Sheriff presents her settlement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fayette County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fayette County Sheriff's Settlement - 2004 Taxes as of April 30, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- Lexington-Fayette Urban County Government Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of Up To \$16,755,342 To Protect Deposits And Enter Into Written Agreements To Protect Deposits



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 2, 2005

